S. Hrg. 98-80

NOMINATION OF DONALD I. HOVDE

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

THE NOMINATION OF DONALD I. HOVDE TO BE A MEMBER OF THE FEDERAL HOME LOAN BANK BOARD UNTIL JUNE 30, 1985

MAY 24, 1983

Printed for the use of the
Committee on Banking, Housing, and Urban Affairs

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NOMINATION OF DONALD I. HOVDE

TUESDAY, MAY 24, 1983

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 3 p.m., in room SD–538, Dirksen Senate Office building; Senator Jake Garn (chairman of the committee) presiding.

Present: Senators Garn, Hecht, and Proxmire.

Also present: Senator Kasten.

OPENING STATEMENT OF CHAIRMAN GARN

The CHAIRMAN. The Banking Committee will come to order. The purpose of the hearing today is the confirmation hearing of Mr. Donald I. Hovde, nominated by the President of the United States to be a member of the Federal Home Loan Bank Board until June 30, 1985.

Senator Kasten, we are happy to have you here today and pleased that you would take the time to introduce Mr. Hovde. Please proceed.

STATEMENT OF SENATOR ROBERT W. KASTEN, JR., U.S. SENATOR FROM THE STATE OF WISCONSIN

Senator KASTEN. Mr. Chairman, thank you.

I am pleased to have this opportunity to introduce Donald I. Hovde to the members of the Senate Banking Committee.

Don is a highly respected Wisconsinite, and I am very pleased to recommend his confirmation as a member of the Federal Home Loan Bank Board.

Mr. Hovde has served as Under Secretary of the Department of Housing and Urban Development since March 1981. In this capacity he has been the chief operating officer with the responsibility for overseeing the day-to-day operations of the Department. In this job he has made an important contribution to the work of this administration and has also proved himself to be a most effective administrator.

Prior to coming to Washington, Don Hovde was the owner and president of Hovde Realty, Inc., a commercial investment real estate brokerage firm in Madison, Wis., one of the largest developers in Dane County. Mr. Hovde also headed a real estate investment holding company that revitalized many central city commercial office buildings.

The high regard in which he is held by Realtors throughout the country was well recognized in 1979 when Don was elected president of the National Association of Realtors.

Don Hovde comes to Federal Home Loan Bank Board exceptionally well qualified to handle the very important responsibilities that will

face him in this position. He is an outstanding individual, and I know that he will perform his duties there very effectively.

I strongly recommend Don Hovde to the members of this committee, and I am anxious and hopeful that he will be confirmed.

The CHAIRMAN. Thank you very much.

Senator Proxmire.

OPENING STATEMENT OF SENATOR PROXMIRE

Senator PROXMIRE. Thank you, Mr. Chairman.

Mr. Chairman, I take great pride and enthusiasm in recommending our nominee Don Hovde, I have been here with seven Presidents.

The CHAIRMAN. I'm sure glad I haven't been here that long.

Senator PROXMIRE. Well, you're lucky.

But let me just say that if I had to grade the Presidents on their appointments I would grade all of them with a flat F. I think they have done lousy jobs. But this is an exception. This is an excellent appointment, top flight in every way.

In the first place, this nominee has shown his great ability in the private sector. He understands real estate; he understands housing; he understands the problems that the Home Loan Bank Board will have to confront.

As you know, as my esteemed colleague has just pointed out, he has been the No. 2 man at HUD for more than 2 years, and as you also know, I don't have a great deal of respect for HUD. I've been critical of HUD for some time. But I think that Don Hovde has done an excellent job there and has won a great deal of admiration for his good judgment, for his knowledge of housing, and for the way he has advanced the objectives of HUD.

So, I think in this case President Reagan deserves great credit for this appointment. It's an outstanding appointment. I'm sure he will do a great job.

This agency has a lot of problems. As the chairman of the committee knows, the retiring Chairman of the Home Loan Bank Board is from Utah and was an able man and did a good job. But the challenge for that agency is very great. I don't know of any group of institutions that have more difficulties than the savings and loans, which are under the jurisdiction of the Federal Home Loan Bank Board, for reasons beyond their control, as you all know.

I'm very happy that we have this very able, well-informed nominee with an excellent background to move in and do the kind of job I'm sure he will do.

The CHAIRMAN. Let me just ask one question of my two colleagues from Wisconsin, and first of all say that I agree with you completely in your assessment of this nominee, but I really wonder if he were from Utah if you would be that enthusiastic. [Laughter.]

I couldn't resist.

Senator Hecht, do you have any comments you wish to make?

Senator HECHT. No; thank you very much.

The CHAIRMAN. Anybody that can survive 2 years at HUD deserves to be appointed to something else. [Laughter.]

Please proceed.

[Witness sworn.]

STATEMENT OF DONALD I. HOVDE

Mr. HOVDE. Thank you, Mr. Chairman, and Senator Kasten and Senator Proxmire. I am most flattered and humbled by your endorsement. I am most appreciative of that.

Mr. Chairman and members of the committee, 27 months ago it was my district pleasure to appear before this committee for confirmation as President Reagan's nominee for the position of Under Secretary of the Department of Housing and Urban Development. I was honored to receive the full endorsement of the committee for my appointment to that position and subsequently the approval of the Senate. At that hearing I stated:

> The housing problems of this country cannot be solved by Government alone . . . but it must play a leadership role in helping to bring about changes in new technologies, in new attitudes by communities, in new approaches by financial institutions, in new regulations—all helping to unleash the productive capacity of the housing industry . . . Unless we get interest rates down, inflation under control and money available again nothing is going to work. This is the objective—my objective. The threat posed to the American dream of homeownership must be addressed.

Mr. Chairman, the results are coming in and my faith and hope in sound government leadership and responsible marketplace reaction has been vindicated. Inflation is well on its way to being licked and interest rates have declined sharply.

At the time of my confirmation in March 1981 as Under Secretary, the FHA/VA rate stood at 14 percent and was rapidly escalating to the sky-high figure of 17½ percent in September of that year. Interest rates at this level were posing a serious threat to the American dream of homeownership. Today the FHA/VA rate stands at 11½ percent.

Every one-half percent drop in interest rates brings about 800,000 more families into the housing market. Therefore, more than 9.6 million families are now able to afford the privilege of homeownership as compared to the number qualifying in September 1981. In March 1981 the annual rate of inflation was in excess of 10 percent. Today, economists predict that inflation for 1983, if continuing at its present trend, will be under 4 percent. I take personal pride in the very active role that HUD played in this turnaround. These are results for which we can all be justly proud and for which credit can be shared both by the administration and the Congress.

Referring once again to my confirmation statement in early 1981, I spoke of the leadership role of Government. In my opinion there is no greater example of this type of leadership than the role you and your colleagues on this committee took in developing and shepherding the passage of the Garn-St Germain Depository Institutions Act of 1982. I have stated on more than one occasion in my travels throughout the country as Under Secretary that this law is the best piece of housing legislation to come out of Congress in recent years. Further, I firmly believe that the act does not and will not lessen the commitment to housing finance historically exhibited by the thrift industry. Indeed, the facts speak otherwise.

Savings and loan associations, far from abandoning their traditional role in housing finance, have reestablished themselves during the past months as a principal source at funds for housing. In March the thrifts

placed $10.8 billion of mortgage money into the hands of builders and home buyers, the largest monthly figure on record.

Thrift's outstanding commitments for future mortgage lending in March also achieved the highest level in history, with $25.4 billion committed for future delivery. This record activity is not just statistics. It correlates to action and economic stimulus everywhere. Building permits, the best indicator of future home construction, reached a 43-month high in April to an adjusted annual rate of 1,563,000 units. Actual housing starts for April, although down from the record levels of February and March, were still more than 63 percent higher than 1 year ago.

Suffice it to say, I believe that such encouraging statistics only underscore the importance of the Garn-St Germain legislation. This legislation demonstrates what can be accomplished when the administration, Congress, industry, and the Bank Board work in concert to achieve—not short-term quick fixes—but true long-term, innovative approaches to problem solving. I hope that such a spirit of understanding and cooperation will continue.

As the Under Secretary of HUD I had the unique opportunity to participate directly in the development and implementation of policies in a segment of our economy—real estate—in which I have more than 28 years of practical private sector experience.

As a real estate broker, investor, and developer throughout my professional life I know this industry better than any other. As the president in 1979 of the 760,000 member National Association of Realtors I travelled throughout the country, including several appearances before this committee, to discuss and alert Americans to what I saw to be increasing obstacles to homeownership and housing affordability.

Shortly after concluding my year as president I accepted the offer of Secretary Pierce and the ensuing challenge of becoming the Under Secretary of HUD with the purpose of continuing my commitment to homeownership and housing affordability, and more importantly, to effect policy changes nationally and locally to remove the obstacles I found.

One example that I believe is of particular note and illustrative of Federal leadership and simply good government is an initiative at HUD called the joint venture for affordable housing. As chairman of the task force overseeing this truly public-private partnership since its inception, cities, counties, States, the Federal Government, businesses, media, lenders, builders, consumers, and thousands of other individuals, through private interest groups have joined together to create the environment and the consensus for dramatic, meaningful change in housing construction, regulation, development, finance, design, and the public's attitude toward each.

Actual demonstration sites—and we have now some 29 of them in cities around the country—have documented product cost savings of up to 20 percent for the potential new home buyer. Moreover, these savings are possible nearly everywhere in the country if the example and lead of the joint venture is followed.

It has been a tremendously exciting task, one that has proven to many Americans that affordable housing is possible without reverting to the costly alternative of past administrations, that of Federal subsidies.

The joint venture initiative is but one of many initiatives at HUD that have made my tenure as Under Secretary particularly satisfying and, I should add, educational. I believe I have accomplished much of what I had originally set out to achieve and look forward with great anticipation to the opportunity to serve the housing industry further as a member of the Federal Home Loan Bank Board.

I have stated my long-standing personal commitment to housing and the role that thrift institutions have played through the years. I renew that today. I feel privileged to have the opportunity to work with a man of the stature and similar commitment to housing as Chairman Edwin Gray. I fully support and endorse his statement that the thrift industry now has the tools to successfully and aggressively compete in the marketplace by employing the new powers conferred by the Garn-St Germain.

As a member of the Federal Home Loan Bank Board I will have two major goals: One, to seek and, if at all possible, assure a profitable, viable and competitive thrift industry; and two, to continue my personal commitment to housing.

Chairman Pratt wisely pursued the charge of financial deregulation. Chairman Gray, I am confident, will move responsibly and forcefully to see that the new powers granted to the thrift industry are implemented and understood by all thrifts as well as the home loan banking system itself.

In my opinion the ability to engage in more diverse areas of lending and investment, although still in a limited manner, and to compete more equitably and effectively for investor funds at market rates provides the thrift industry the opportunity to improve their financial base and market position while encouraging the implementation of creative service delivery techniques and instruments to meet head on the expanding needs of the Nation's housing industry.

Mr. Chairman, as I reflect on my past experiences and consider the future opportunity available to me as one of the three members of the Federal Home Loan Bank Board, I am excited by the challenge that I see, confident in my ability to provide leadership and insight, and honored to be asked to serve the President, Chairman Gray, the thrift industry and the home buying consumer.

Thank you very much.

I am willing to respond to questions.

[Complete statement and biographical sketch follow:]

STATEMENT OF

DONALD I. HOVDE

Mr. Chairman:

Twenty-seven months ago it was my distinct pleasure to appear before this Committee for confirmation as President Reagan's nominee for the position of Under Secretary of the Department of Housing and Urban Development. I was honored to receive the full endorsement of the Committee for my appointment to that position and subsequently the approval of the Senate. At that hearing I stated:

> "The housing problems of this country cannot be solved by Government alone...but it must play a leadership role in helping to bring about changes in new technologies, in new attitudes by communities, in new approaches by financial institutions, in new regulations--all helping to unleash the productive capacity (of the housing industry)...Unless we get interest rates down, inflation under control and money available again, nothing is going to work. This is the objective--My objective. The threat posed to the American dream of homeownership must be addressed."

Mr. Chairman, the results are coming in and my faith and hope, in sound government leadership and responsible marketplace reaction has been vindicated--inflation is well on its way to being licked and interest rates have declined sharply.

AT THE TIME OF MY CONFIRMATION IN MARCH OF 1981 AS UNDER SECRETARY, THE FHA/VA RATE STOOD AT 14% AND WAS RAPIDLY ESCALATING TO THE SKY-HIGH FIGURE OF 17½% IN SEPTEMBER. INTEREST RATES AT THIS LEVEL WERE POSING A SERIOUS THREAT TO THE AMERICAN DREAM OF HOMEOWNERSHIP. TODAY THE FHA/VA RATE STANDS AT 11½%. EVERY ½% DROP IN INTEREST RATES BRINGS ABOUT 800,000 MORE FAMILIES INTO THE HOUSING MARKET. THEREFORE, MORE THAN 9.6 MILLION FAMILIES ARE NOW ABLE TO AFFORD THE PRIVILEGE OF HOMEOWNERSHIP AS COMPARED TO THE NUMBER QUALIFYING IN SEPTEMBER 1981. IN MARCH OF 1981 THE ANNUAL RATE OF INFLATION WAS IN EXCESS OF 10%. TODAY, ECONOMISTS PREDICT THAT INFLATION FOR 1983, IF CONTINUING AT ITS PRESENT TREND WILL BE UNDER 4%. I TAKE PERSONAL PRIDE IN THE VERY ACTIVE ROLE THAT HUD PLAYED IN THIS TURN-AROUND. THESE ARE RESULTS FOR WHICH WE CAN ALL BE JUSTLY PROUD, AND FOR WHICH CREDIT CAN BE SHARED--BOTH BY THE ADMINISTRATION AND THE CONGRESS.

REFERRING ONCE AGAIN TO MY CONFIRMATION STATEMENT IN EARLY 1981, I SPOKE OF THE LEADERSHIP ROLE OF GOVERNMENT. IN MY OPINION, THERE IS NO GREATER EXAMPLE OF THIS TYPE OF LEADERSHIP THAN THE ROLE YOU AND YOUR COLLEAGUES ON THE COMMITTEE TOOK IN DEVELOPING AND SHEPHERDING THE PASSAGE OF THE GARN-ST GERMAIN DEPOSITORY INSTITUTIONS ACT OF 1982. I HAVE STATED ON MORE THAN ONE OCCASION, IN MY TRAVELS THROUGHOUT THE COUNTRY AS UNDER SECRETARY, THAT THIS LAW IS THE BEST PIECE OF HOUSING LEGISLATION TO COME OUT OF CONGRESS IN RECENT YEARS. FURTHER, I FIRMLY BELIEVE THAT THE ACT DOES NOT, AND WILL NOT, LESSEN THE COMMITMENT TO HOUSING

FINANCE HISTORICALLY EXHIBITED BY THE THRIFT INDUSTRY. INDEED, THE FACTS SPEAK OTHERWISE. SAVINGS AND LOAN ASSOCIATIONS FAR FROM ABANDONING THEIR TRADITIONAL ROLE IN HOUSING FINANCE, HAVE RE-ESTABLISHED THEMSELVES DURING THE PAST MONTHS AS A PRINCIPAL SOURCE OF FUNDS FOR HOUSING. IN MARCH, THE THRIFTS PLACED $10.8 BILLION OF MORTGAGE MONEY INTO THE HANDS OF BUILDERS AND HOMEBUYERS -- THE LARGEST MONTHLY FIGURE ON RECORD. THRIFT'S OUTSTANDING COMMITMENTS FOR FUTURE MORTGAGE LENDING IN MARCH ALSO ACHIEVED THE HIGHEST LEVEL IN HISTORY WITH $25.4 BILLION COMMITTED FOR FUTURE DELIVERY. THIS RECORD ACTIVITY IS NOT JUST STATISTICS -- IT CORRELATES TO ACTION AND ECONOMIC STIMULUS EVERYWHERE. BUILDING PERMITS -- THE BEST INDICATOR OF FUTURE HOME CONSTRUCTION -- REACHED A 43 MONTH HIGH IN APRIL TO AN ADJUSTED ANNUAL RATE OF 1,563,000 UNITS. ACTUAL HOUSING STARTS FOR APRIL, ALTHOUGH DOWN FROM THE RECORD LEVELS OF FEBRUARY AND MARCH, WERE STILL MORE THAN 63% HIGHER THAN ONE YEAR AGO.

SUFFICE TO SAY, I BELIEVE THAT SUCH ENCOURAGING STATISTICS ONLY UNDERSCORE THE IMPORTANCE OF THE GARN-ST GERMAIN LEGISLATION. THIS LEGISLATION DEMONSTRATES WHAT CAN BE ACCOMPLISHED WHEN THE ADMINISTRATION, CONGRESS, INDUSTRY AND THE BANK BOARD WORK IN CONCERT TO ACHIEVE -- NOT SHORT TERM QUICK-FIXES -- BUT TRUE LONG-TERM, INNOVATIVE APPROACHES TO PROBLEM-SOLVING. I HOPE THAT SUCH A SPIRIT OF UNDERSTANDING AND COOPERATION WILL CONTINUE.

AS THE UNDER SECRETARY OF HUD, I HAVE HAD THE UNIQUE OPPORTUNITY TO PARTICIPATE DIRECTLY IN THE DEVELOPMENT AND IMPLEMENTATION OF POLICIES IN A SEGMENT OF OUR ECONOMY -- REAL ESTATE -- IN WHICH I

HAVE MORE THAN 28 YEARS OF PRACTICAL, PRIVATE SECTOR EXPERIENCE. AS A REAL ESTATE BROKER, INVESTOR AND DEVELOPER THROUGHOUT MY PROFESSIONAL LIFE, I KNOW THIS INDUSTRY BETTER THAN ANY OTHER. AS THE PRESIDENT, IN 1979, OF THE 760,000 MEMBER NATIONAL ASSOCIATION OF REALTORS, I TRAVELLED THROUGHOUT THE COUNTRY, INCLUDING SEVERAL APPEARANCES BEFORE THIS COMMITTEE, TO DISCUSS AND ALERT AMERICANS TO WHAT I SAW TO BE INCREASING OBSTACLES TO HOMEOWNERSHIP AND HOUSING AFFORDABILITY. SHORTLY AFTER CONCLUDING MY YEAR AS PRESIDENT, I ACCEPTED THE OFFER OF SECRETARY PIERCE AND THE ENSUING CHALLENGE OF BECOMING THE UNDER SECRETARY OF HUD WITH THE PURPOSE OF CONTINUING MY COMMITMENT TO HOMEOWNERSHIP AND HOUSING AFFORDABILITY, AND MORE IMPORTANTLY, TO AFFECT POLICY CHANGES, NATIONALLY AND LOCALLY, TO REMOVE THE OBSTACLES I FOUND. ONE EXAMPLE THAT I BELIEVE IS OF PARTICULAR NOTE AND ILLUSTRATIVE OF FEDERAL LEADERSHIP AND SIMPLY, GOOD GOVERNMENT, IS AN INITIATIVE AT HUD -- THE JOINT VENTURE FOR AFFORDABLE HOUSING. AS CHAIRMAN OF THE TASK FORCE OVERSEEING THIS TRULY PUBLIC-PRIVATE PARTNERSHIP SINCE ITS INCEPTION; CITIES, COUNTIES, STATES, THE FEDERAL GOVERNMENT, BUSINESSES, MEDIA, LENDERS, BUILDERS, CONSUMERS AND THOUSANDS OF OTHER INDIVIDUALS THROUGH PRIVATE INTEREST GROUPS, HAVE JOINED TOGETHER TO CREATE THE ENVIRONMENT AND THE CONSENSUS FOR DRAMATIC, MEANINGFUL CHANGE IN HOUSING CONSTRUCTION, REGULATION, DEVELOPMENT, FINANCE, DESIGN AND THE PUBLIC'S ATTITUDE TOWARD EACH. ACTUAL DEMONSTRATION SITES IN CITIES AROUND THE COUNTRY HAVE DOCUMENTED PRODUCT COST SAVINGS OF UP TO 20% FOR THE POTENTIAL NEW HOMEBUYER. MOREOVER, THESE SAVINGS ARE POSSIBLE NEARLY ANYWHERE IN THE COUNTRY IF THE EXAMPLE AND LEAD OF THE JOINT VENTURE IS FOLLOWED. IT HAS BEEN

A TREMENDOUSLY EXCITING TASK -- ONE THAT HAS PROVEN TO MANY AMERICANS THAT AFFORDABLE HOUSING IS POSSIBLE WITHOUT REVERTING TO THE COSTLY ALTERNATIVE OF PAST ADMINISTRATIONS, THAT OF FEDERAL SUBSIDIES.

THE JOINT VENTURE INITIATIVE IS BUT ONE OF MANY INITIATIVES AT HUD THAT HAVE MADE MY TENURE AS UNDER SECRETARY PARTICULARLY SATISFYING, AND I SHOULD ADD, EDUCATIONAL. I BELIEVE I HAVE ACCOMPLISHED MUCH OF WHAT I HAD ORIGINALLY SET OUT TO ACHIEVE AND LOOK FORWARD WITH GREAT ANTICIPATION TO THE OPPORTUNITY TO SERVE THE HOUSING INDUSTRY FURTHER AS A MEMBER OF THE FEDERAL HOME LOAN BANK BOARD.

I HAVE STATED MY LONG-STANDING, PERSONAL COMMITMENT TO HOUSING AND THE ROLE THAT THRIFT INSTITUTIONS HAVE PLAYED THROUGH THE YEARS. I RENEW THAT TODAY. I FEEL PRIVILEGED TO HAVE THE OPPORTUNITY TO WORK WITH A MAN OF THE STATURE AND SIMILAR COMMITMENT TO HOUSING AS CHAIRMAN EDWIN GRAY. I FULLY SUPPORT AND ENDORSE HIS STATEMENT THAT THE THRIFT INDUSTRY NOW HAS THE TOOLS TO SUCCESSFULLY AND AGGRESSIVELY COMPETE IN THE MARKETPLACE BY EMPLOYING THE NEW POWERS CONFERRED BY GARN-ST GERMAIN. AS A MEMBER OF THE BANK BOARD, I WILL HAVE TWO MAJOR GOALS: (1) TO SEEK, AND IF AT ALL POSSIBLE, ASSURE A PROFITABLE, VIABLE AND COMPETITIVE THRIFT INDUSTRY; AND (2) TO CONTINUE MY PERSONAL COMMITMENT TO HOUSING.

CHAIRMAN PRATT WISELY PURSUED THE CHARGE OF FINANCIAL DEREGULATION. CHAIRMAN GRAY, I AM CONFIDENT, WILL MOVE RESPONSIBLY AND FORCEFULLY TO SEE THAT THE NEW POWERS GRANTED TO THE THRIFT INDUSTRY ARE IMPLEMENTED AND UNDERSTOOD BY ALL THRIFTS AS WELL AS THE HOME LOAN BANKING SYSTEM ITSELF.

IN MY OPINION, THE ABILITY TO ENGAGE IN MORE DIVERSE AREAS OF LENDING AND INVESTMENT, ALTHOUGH STILL IN A LIMITED MANNER, AND TO COMPETE MORE EQUITABLY AND EFFECTIVELY FOR INVESTOR FUNDS AT MARKET RATES, PROVIDES THE THRIFT INDUSTRY THE OPPORTUNITY TO IMPROVE THEIR FINANCIAL BASE AND MARKET POSITION WHILE ENCOURAGING THE IMPLEMENTATION OF CREATIVE SERVICE DELIVERY TECHNIQUES AND INSTRUMENTS TO MEET HEAD-ON THE EXPANDING NEEDS OF THE NATION'S HOUSING INDUSTRY.

MR. CHAIRMAN, AS I REFLECT ON MY PAST EXPERIENCES AND CONSIDER THE FUTURE OPPORTUNITY AVAILABLE TO ME AS ONE OF THREE MEMBERS OF THE FEDERAL HOME LOAN BANK BOARD, I AM EXCITED BY THE CHALLENGE THAT I SEE -- CONFIDENT IN MY ABILITY TO PROVIDE LEADERSHIP AND INSIGHT -- AND -- HONORED TO BE ASKED TO SERVE THE PRESIDENT, CHAIRMAN GRAY, THE THRIFT INDUSTRY AND THE HOMEBUYING CONSUMER. THANK YOU VERY MUCH. I AM WILLING TO RESPOND TO QUESTIONS.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Hovde (LAST) Donald (FIRST) I. (OTHER)

Position to which nominated: Member, Federal Home Loan Bank Board Date of nomination: May 17, 1983 (est.)

Date of birth: 06 (DAY) 03 (MONTH) 31 (YEAR) Place of birth: Madison, Wisconsin

Marital status: Married Full name of spouse: Virginia E. Hovde

Name and ages of children:

Steven D.	28 yrs.	Eric D.	18 yrs.
Jane E.	25 yrs.	Kirsten A.	12 yrs.
James E.	23 yrs.		

Education:

Institution	Dates attended	Degrees received	Dates of degrees
East High School	1945-49	H.S. Diploma	June 1949
University of Wisconsin	1949-53	BBA	June 1953

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

National Honor Society (1949; East High School)

Madison Board of Realtors "Realtor of the Year" (1967)

Wisconsin "Realtor of the Year" (1976)

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Madison Chamber of Commerce	President (1969)	1955 to 1981
Madison Board of Realtors	President (1962)	1955 to 1981
Wisconsin Realtors Association	President (1975)	1955 to 1981
National Association of Realtors	President (1979)	1955 to 1981
Methodist Hospital Foundation	Director (1970-79)	
Madison Foundation for the Arts	Vice President (1980)	1974 to 1981
~~Central Madison Committee~~	~~President 1976)~~	~~1971 to 1981~~
Greater Madison Area Arson Task Force	Chairman	~~1980 to 1981~~

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

U.S. Army (1953-55; 1958-59) Captain

Hovde Realty, Inc. (1955 to date -- minus military service -- President; real estate sales and development; Madison, Wisconsin)

Federal Government - U. S. Department of Housing & Urban Development; Under Secretary; March 31, 1981 to present

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

(1) City of Madison - Mayor's Advisory Committee (1962-66)

(2) Greater Madison Area Arson Task Force - Chairman (1980 to date)

(3) Under Secretary - U.S. Department of Housing & Urban Development (March 31, 1981 to date)

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

None

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

(1) Republican Party of Wisconsin

(2) Realtors for Reagan Committee -- Regional Chairman for Indiana, Illinois and Wisconsin (1980)

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

Wisconsin Realtor Political Action Committee:

- 1972 -- $1,000

- 1979 -- $1,000

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

See attached statement

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

YES

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

YES

3. Has anybody made you a commitment to a job after you leave government?

NO

4. Do you expect to serve the full term for which you have been appointed?

YES

NOMINEE'S STATEMENT OF QUALIFICATIONS

(Attachment to Page 4)

I have been involved in all aspects of the housing delivery system (private sector) for 27 years, plus serving in the public sector as the Under Secretary of the U.S. Department of Housing and Urban Development for the past two years. This involvement has included mortgage finance, land development, building construction, major rehabilitation projects, office building development and full service real estate brokerage activities as well as the full gambit of the Department of Housing and Urban Development's program activities. In addition, I have served (1979) as the President of the National Association of Realtors which has a national membership of approximately 760,000 people and embodies all aspects of both the public and private housing industry. I hold a BBA Degree in finance from the University of Wisconsin (1953) in the School of Business Administration.

For the past 20 years, I have also been heavily involved in community and civic activities and have focused many of my energies and efforts in central city development. As Under Secretary of the Department of Housing and Urban Development, I frequently attend on behalf of the Secretary, the Cabinet Council on Economic Affairs.

As a result of these activities and experiences and formal education, I feel that I have a sound working knowledge of both local and national housing and finance needs and concerns, as well as the proven administrative abilities necessary to fulfill the responsibilities of this position.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None (Nominee has contract receivables from former associates, payment of which will not be dependent upon land development or brokerage operations).

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None (Nominee will continue to be the sole shareholder of Hovde Realty, Inc. which will hold commercial and agricultural investments during the anticipated term of office. Management of the company will be handled by nominee's two oldest sons).

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

(1) National Realtors Legislative Committee -- Chairman -- 1971

(2) National Association of Realtors -- President -- 1979

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

I have resigned from all professional and business associations of which I was a member and business offices which I held. I have divested myself of ownership in any and all land development projects, apartment buildings and real estate brokerage operations. It is my belief that these steps will resolve all actual or potential conflicts of interests.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

IG Investigation/Audit of the use of a government-owned vehicle. On May 5, 1983, Secretary Samuel R. Pierce requested a reimbursement to the Department of Housing and Urban Development in the amount of $3,149.50 as an adequate and complete sanction concluding this matter. I have paid in full the amount requested.

I have not been involved in any other civil or criminal proceeding in which I was a defendant nor any other inquiry or investigation by a Federal, state or local agency et. al.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

BIOGRAPHY OF DONALD I. HOVDE, UNDER SECRETARY

Donald I. Hovde of Madison, Wisconsin was sworn in as Under Secretary of the Department of Housing and Urban Development on March 31, 1981.

Mr. Hovde is the second ranking official in the Department and serves as Acting Secretary in the absence of the Secretary. He is the chief operating officer and oversees the day-to-day operations of the Department. In addition, he heads The Joint Venture for Housing Affordability, which brings together community officials and developers to constructively remove the roadblocks of local restrictions to affordable housing.

Prior to his nomination to the HUD post, Mr. Hovde was owner and president of Hovde Realty, Inc., a commercial and investment real estate brokerage firm in Madison, Wisconsin. One of the largest developers in Dane County, Wisconsin. Mr. Hovde also headed the 122 Building Corporation, a real estate investment holding company that revitalized many central city commercial office buildings.

Mr. Hovde capped a long-time association with the National Association of Realtors by becoming president of the 760,000 member organization in 1979. Prior to becoming one of the youngest presidents of the Association, which has a $50 million annual budget, Mr. Hovde held virtually every major office in the organization at the local, state and national levels, and was named "Realtor of the Year" for Wisconsin in 1976. As President of the National Association of Realtors, Mr. Hovde restructured many of the departments and committees within the Association, streamlining its organizational structure to better serve the membership.

Very active in civic and community affairs in his home town, Mr. Hovde is a past president of the Greater Madison Chamber of Commerce and helped organize the Central Madison Council which serves as the nucleus group in streamlining innercity redevelopment. He served as a director of the Methodist Hospital Foundation and was general chairman of a fund-raising drive that generated $1 million which served as seed money for a major housing facility for the elderly.

Mr. Hovde earned a Bachelor of Business Administration (BBA) degree in finance at the University of Wisconsin in 1953. He was commissioned in the U.S. Army the same year, earned his pilot's wings in 1958, and served in the Army Reserve until 1963, achieving the rank of captain.

Mr. Hovde, 51, his wife Ginny and their daughter live in McLean, Virginia.

The CHAIRMAN. Thank you very much, Mr. Hovde.

As a member of the Federal Home Loan Bank Board, in order to avoid any conflicts of interest I understand that you will not obtain financing for commercial development, construction or purchases from any institution that is a member of the Federal Home Loan Bank Board. Is that correct?

Mr. HOVDE. That's correct.

The CHAIRMAN. I also understand that you will upon confirmation divest yourself of shares in United Banks of Wisconsin. Is that also correct?

Mr. HOVDE. That's correct.

The CHAIRMAN. Will you agree to appear before this committee and other committees of Congress when requested?

Mr. HOVDE. Most willingly.

The CHAIRMAN. As I have said, Mr. Hovde, I think the President made an excellent choice in this nomination. So I don't ask this in any negative sense, but I do think it should be part of the record due to all of the publicity just recently, and I am sure you are very well aware of the article in the Post "HUD Under Secretary Repays Government for Rides." I am satisfied that you have handled that issue adequately, but if you would like to explain in your own words your explanation of that, I think it should be in the record.

Mr. HOVDE. To say that that has been an embarrassment to me would be the understatement of my career.

It came about very innocently enough. It came about in late March 1981 when the Secretary's executive assistant, meeting with myself and my executive assistant and the Secretary, and I was told that the Secretary was getting a new car and that I would be getting his old car, and since my wife was coming to town that following week, looking for a new home or place to live, and not knowing exactly what kind of travel accommodations I would have—I had one car out there at that time—I was told by that individual in front of two witnesses that the Secretary had mandated the use of the car to and from work. This I proceeded to do.

This was further supported by the fact that my peers in the other Cabinet agencies, including my next door neighbor, an under secretary of another agency, to this day is picked up and taken to and from work. So I thought it was what the law was.

No question was put until June 1982 when the disclosure was made of the allegation against the then Chairman of the VA's, the Veterans' Administration, use of a Government vehicle to and from work. Following that publicity I received a call late in June 1982 by the Inspector General's office, and he said, "Mr. Hovde, we have a hotline complaint on the use of a Government vehicle. We have to investigate."

I said, "Mr. Dempsey, you have to do what you have to do. Here are my records. Proceed ahead."

I ceased at that moment from using the car. It became apparent that there was some disagreement as to what the law actually was. And I retained my counsel. I said, you know, whatever the law is, that's what I'll abide by.

I didn't know whether HUD was treated differently than other Cabinet agencies. I didn't know what the law was. There was confusion within the Department. As a matter of fact six other Cabinet level—not Cabinet level, but six other senior level executives within the Department likewise were part of the entire investigation and audit.

I met with the Secretary. I told him the background that led up to it. I said, "Mr. Secretary, whatever the findings are, providing there is an agreement as to what is truly authorized and what isn't, I will then write you out a check for whatever that difference was."

In late April of this year I received a notice from the Secretary of the amount, $3,149.50. I made out a check for it. This came about after the IG's finding. The IG's report went from last summer all the way through November. After November it went over to the Justice Department, which the law requires. It came back to the Department some time in March or April, to the Secretary's office.

Anyway, after I received the Secretary's billing on it and invoice of that amount I wrote out a check, and then he signed a paper that said,

I am advised that the judicial precedent consistently requires that there be sufficient evidence of a bad purpose or evil motive in addition to a mere attempt to do the physical act in order to constitute a willful violation. The investigative report does not establish a basis of finding for such a willful violation in this case. Accordingly, I have determined that reimbursement by Mr. Hovde of $3,149.50 constitutes an adequate and complete sanction.

Dated May 5, 1983, and signed by Samuel R. Pierce, Jr., Secretary.

The CHAIRMAN. Thank you very much.

Do either of my colleagues, before we go on, wish to ask any questions on this issue?

Senator PROXMIRE. Well, on that issue, just let me say I'm author of that legislation, and the reason for it is pretty clear. If you drive around the streets of Washington you see limousines pass you all the time. You look in the back, and although I would recognize you, Don, and a lot of people who understand what a great job you are doing would, most people wouldn't, and most people look at these limousines driven by chauffeurs, costing $25,000 to $40,000 a year, as an extravagance, you wonder why the Federal Government should do this. These are ablebodied healthy men like you. You could probably run to and from work without too much trouble. You could certainly drive.

At any rate, we got that law on the books. The law seems crystal clear to me. If we can make it any clearer we'll make it clearer. But there has been more concern about that law, because everybody likes his limousine. It's like having your chariot; you've arrived when you come and go to and from work in a limousine.

I remember another distinguished Wisconsin person who occupied an office, I think at HUD. He used to ride back and forth in that limousine. He told me that was the most important thing, far more important than his salary, more important than anything else. It's a tough element to overcome. It's the kind of symbolism that I think really means something to people. It's only a few million dollars in aggregate. I think it was 600 people who used to use them. We have cut it down now to 100 some. I think we ought to cut it down further.

But I think you have handled it honorably and properly, and I think your explanation is clear. I think the interpretations you get from legal counsel are often very confusing. In some cases they have their own limousines.

But I think you have handled this well, and I have no criticism of what you have done.

The CHAIRMAN. Personally I like my Camaro with the T-top roof driven by myself. It lets the breeze blow through my hairs. [Laughter.]

Senator PROXMIRE. Mr. Chairman, I'm surprised you would make that plural. [Laughter.]

The CHAIRMAN. I don't know why. You can turn to your right and see what the situation is.

Let me include for the record part of a letter from the Utah Association of Realtors. I will read a paragraph from it.

The CHAIRMAN. First of all, I will just read a paragraph from it.

UTAH ASSOCIATION OF REALTORS

DEAR SENATOR GARN: This letter is written as an official endorsement of Mr. Donald I. Hovde to become a member of the Federal Home Loan Bank Board. He is a past president of the National Association of Realtors, and of course has currently been serving as Under Secretary of HUD. He has been a great friend of our industry and is very cognizant of our needs in Utah. In addition, he is very aware of the progress we have made as an association in the past few years. We solicit your favorable vote in his behalf.

I also have a letter which I would ask unanimous consent to be placed in the record from the National Association of Home Builders, and also from Mr. Eugene H. Webb, Webb & Brooker, Inc.

[The letters follow:]

WEBB & BROOKER, INC.
New York, N.Y., May 13, 1983.

Senator EDWIN JACOB GARN,
Chairman, Banking Housing and Urban Affairs Committee, Washington, D.C.

DEAR SENATOR GARN: I am writing in support of Mr. Donald I. Hovde's nomination to become a member of the Federal Home Loan Bank Board.

In my judgment Mr. Hovde possesses the necessary qualities and experience to warrant your committee's recommendation and approval. Mr. Hovde is a person of excellent character and integrity with the necessary expertise to qualify him to be a member of the Board.

I trust that this may be read to the members of your committee in support of Mr. Hovde.

Thank you.

Sincerely,

EUGENE H. WEBB.

NATIONAL ASSOCIATION OF HOME BUILDERS,
Washington, D.C., May 19, 1983.

Hon. JAKE GARN,
U.S. Senate, Dirksen Senate Office Building,
Washington, D.C.

DEAR SENATOR GARN: The Board of Directors of the National Association of Home Builders met this week in Washington, D.C. to discuss issues of concern to the housing industry.

One of the resolutions adopted by the Board of Directors was in support of Donald I. Hovde, Under Secretary of the Department of Housing and Urban Development, to become a Member of the Federal Home Loan Bank Board. I attached that resolution.

NAHB urges your favorable consideration of Mr. Hovde for this position at the Federal Home Loan Bank Board.

Sincerely,

HARRY PRYDE, *President.*

NAHB RESOLUTION No. 20

Title: Donald I. Hovde.

Original Sponsor: Standing Committee on Federal Government Affairs.

Whereas, Donald I. Hovde has resigned his position as Under Secretary of the Department of Housing and Urban Development to become a Member of the Federal Home Loan Bank Board; and

Whereas, he has been able, diligent and effective as the chief operating officer of HUD for more than two years; and

Whereas, he has developed and led HUD's Joint Venture for Affordable Housing bringing together local and state officials as well as members of the home-building industry in a coordinated effort to make housing more affordable; and

Whereas, throughout his career, as a realtor in Madison, Wisconsin, former President of the National Association of Realtors and as Under Secretary, he has worked closely with the National Association of Home Builders on many important policy issues to promote decent and affordable housing for all Americans;

Whereas, NAHB will sorely miss his leadership and dedication as Under Secretary of the Department of Housing and Urban Development but look forward to a continuing warm friendship and close working relationship in his new position; Now, therefore, be it

Resolved, That the National Association of Home Builders commends Donald I. Hovde, thanks him for a job well done at the Department of Housing and Urban Development and wishes him well in his new position as a Member of the Federal Home Loan Bank Board.

The CHAIRMAN. Senator Proxmire.

Senator PROXMIRE. I might point out that Mr. Hovde once recommended to the Governor of Wisconsin that he sign a law requiring that people in the real estate business be required to take 10 hours of annual study so that they would be capable of doing the job that's required. And that included everybody, including Don who made

the recommendation. And when Don went to take his course one of the people also taking it was the then former governor of the State who also got in the real estate business. I think that this was an excellent suggestion. Maybe we ought to apply it to Members of Congress. I think it might improve our performance.

Mr. Hovde, several years ago the savings and loan institutions pleaded with Congress for legislation that would permit them to have variable rate mortgages. Some of us were reluctant to give it, but we decided it was necessary, and I think it turned out to be a very desirable change in view of what has happened. Now, despite the lessons that we have learned and the near demise of the industry in 1981 and most of 1982, we see many associations returning to the good old days of borrowing short and lending long. In fact, I noticed the other day that 30-year, fixed rate mortgages had gone up in less than a year from 49 percent to 75 percent of all mortgage loans made. That seems to me to be an alarming change. I understand in the article I read that when savings and loan executives are queried about it they all deplore it. They say "we're not doing it." And yet it is obvious that many of them are.

What do you think the Federal Home Loan Bank Board can or should do about that?

Mr. Hovde. Well, I see a three-tiered pricing system developing. I think 30-years, fixed rate mortgages will be with us forever. Certainly FHA, with the 30-year, fixed rate mortgage, by the end of December had become 26 percent of all new loan originations, both for new and existing homes in this country. So FHA's role is playing a much larger involvement. And then, of course, that gets passed through into a GNMA mortgage backed security. So, that figure has an upward skew partly because of FHA/VA involvement.

There is no question that S&L's likewise are getting back into the 30-year, fixed rate mortgage. They are in turn, however, selling those mortgages off to both FNMA and FHLMC. So, they are not being held in portfolio.

I don't know what percentage that they are making is being passed on and which is being kept.

The adjustable rate mortgages, the second tier, based on a 1- or a 3- or a 5-year Treasury bill—I don't know whether there has been sufficient price incentives to attract the consumer into it. I am aware of a number of S&Ls that as of March of this year, for instance, offered respectively $100 million at 10.9 percent, and the money was grabbed up rather quickly. A large S&L out of Buffalo, N.Y., offered $500 million at 9.9 percent. Within 6 weeks time most of the money was gone.

So, it takes a price incentive. If you have an inflationary adjusted rate, an ARN, premised either on a 1 or a 3 or a 5, one would think that the differential between the cost of the money and the money loaned out could be adjusted and perhaps a bit finer tuned than under a 30-year fixed.

I think that whole market will shake out. I don't have any alarming fears that the industry is going all the way back to constantly relying upon the 30-year fixed. I think they will have market incentives for the consumer to go on an adjustable rate mortgage.

In Wisconsin, by the way, Senator, as you and I both know, adjustable-rate mortgages were allowed in the State way back in 1970. Wisconsin was one of the few States, relatively speaking, that survived better as a thrift industry during the past crisis. They perhaps have one of the higher performing records of any other State because of their ability to use the adjustable-rate mortgages.

I think it will all shake out and there will be market incentives for it. Also, the expansion of the secondary marketplace. Last year the aggregates of FNMA, FHLMC, and GNMA were probably around $60 or $65 billion. From what I have accounted for today, it will be well in excess of $100 billion this year, and of course, FHLMC's economist predicts $250 to $300 billion in the secondary market by 1990. Of course, by doing that, a lot of that great risk is shifted. They then pick up their fee income from mortgage origination.

So, I think we will see a three-tiered system of fixed rate, adjustable rate, and one thing I didn't talk about, the new 15-year, fixed, rate mortgage, and that has become very viable in the marketplace because it only takes 250 basis points between, says, a 30-year, fixed rate mortgage at 13 percent. If you had a 10½ percent mortgage at 15 years, you would have the same monthly payment. The consumer has awakened to that fact.

And so FHA, through allowing 15-year mortgages in our GNMA pool, from September through February wrote $300 million in 15-year, fixed rate mortgages. From the investor's standpoint you have the shorter maturity and can afford to lower the rate; from the consumer's standpoint, he/she has the same monthly payment and can get their house paid up 15 years faster.

Senator PROXMIRE. I'm wondering if the Federal Home Loan Bank Board has any positive role to play in it. You have explained it very well. It seems to me that perhaps by jawboning and by making this as abundantly clear to the savings and loans as you can it might help, although most of them, coming through this, should know it very well.

Let me suggest this. If savings and loans are going to continue going in and staying in these 30-year, fixed loans, is there a way they can match their assets with longer term liabilities?

Very few savings and loan associations seem to want to borrow long-term nowadays when short-term money is cheaper. This may temporarily boost their earnings. Many of these executives presumably are just looking at the next couple of years. But, certainly, if you look at our deficits that are facing us for the next 5 years, the enormous increase in borrowing by the Federal Government, and a very strong likelihood—it seems to me almost a certainty—that interest rates are going to go up again—not this year perhaps; not next year maybe; but over the next 2 years—once again we'd have a disastrous situation in the industry that you regulate. So, I just wonder if there is anything positive that you as a member of the Federal Home Loan Bank Board can do to help overcome this.

Mr. HOVDE. I think we can, Senator, and certainly one of the ways is a massive dosage of adult education that has to be taken to the industry either under the auspices of the Bank Board, or better yet, in concert with the industry itself and their respective asssociations.

Senator PROXMIRE. Is there a way that you could develop standards

to require associations to maintain a closer match of their assets and liabilities?

Mr. HOVDE. Setting standards as such? Perhaps. But then you would get back in the allocation issue. Are you saying maybe 30 percent should be in adjustable rate mortgages? Or maybe 50 percent? And something other than doing it by the route? We are trying to do it by the computer matching whereby we know—and it is fed into the Bank Board system computer, I understand—precisely what the asset and liabilities match are in any given institution.

There is also a very sophisticated investment management tool called hedging that those who are very knowledgeable in the marketplace in portfolio management are aware of, which the industry is totally, by and large, unknowledgeable about.

You and I, we talk about the secondary marketplace as very common and accepted and everyone being aware of it. I sat in on a meeting recently where in only 30 percent of one of our district bank areas S&Ls availed themselves of the secondary market, of their own plan of the FHLMC. I couldn't believe that. I thought the secondary market of FHLMC was just hand in glove with the industry and everybody knew about it and were implementing it. But apparently not.

So, we have some basic things to do in education.

As far as setting standards, I will, along with the Board, recommend that we take a close look at that. I don't know whether I would like to see us getting into allocations.

Senator PROXMIRE. I don't like the idea of allocations either. I was thinking more in terms of requiring a closer match between assets and liabilities.

How about using a greater market discipline to encourage more prudent management? For instance, requiring a depositor share in 1 percent of any losses. As you know, we have a deposit insurance system now which is comprehensive and which is critically important. That's kind of a radical suggestion, but it seems to me it would provide a pretty sharp incentive for depositors to take a look at management.

Mr. HOVDE. I think we should. I think we ought to look at the whole coinsurance issue of deposits. In effect right now we have 100 percent insurance of all deposits from a practical standpoint. Some risk sharing ought to be looked at. I understand there is a study that was completed on April 15 in this area, dealing in this area, that has been sent to Congress. I can assure you that I will work very closely with you and your staff as to the possible recommendations for the industry that would some out of that.

Senator PROXMIRE. Would you think that it would be practical to consider the possibility of depositors sharing in 1 percent of the losses? If we kept to a small amount it would make them alert to the fact that they should be sensitive to management.

Mr. HOVDE. The concept certainly appears on the face of it to have some merit, yes.

Senator PROXMIRE. What do you think about basing deposit insurance premiums on the amount of risk involved, as advocated by Chairman Isaac of the FDIC?

Mr. HOVDE. Or Dick Pratt. The variable premium rate. I think that particular issue has to be studied very, very closely. I think assessing risk and putting a variable premium on it really then becomes set-

ting a whole new set of standards by the Bank Board through FSLIC upon the industry that could get us right back into a highly regulatory type mode. I think assessing risk is going to be very difficult, and we ought to proceed on that course very carefully.

Senator PROXMIRE. Treasury has recommended that bank holding companies be allowed to go into real estate development and the real estate brokerage business. How do you feel about that?

Mr. HOVDE. I differ with many of my colleagues in the real estate industry on that issue. The fact of the matter is nationwide concerns coupling both mortgage finance as well as real estate brokerage are already in place. There is not any major community in this country where you can't walk into a real estate office and have the complex of services of a company representing both mortgage finance and real estate brokerage. To the degree then that we throw the industry wide open for allowing thrifts to directly own real estate brokerage companies I don't know—I understand they can currently make investments in regional real estate brokerage operations but not be directly involved in the brokerage operation.

I do want to look at that issue very carefully. I know the concerns of the industry.

The point is that we are moving as an industry to a point of sale commitment; that is, the buyer comes into a real estate brokerage office, and as they go to the computer to get out a readout of homes available and then come back to that computer to get comparable sales, they will likewise come to the computer and get a mortgage commitment. And that is where the industry is moving. Whether we like it or not, that is where we are going. And so that kind of alinement and allowability and flexibility is going to have to take place. The consumers' interests are best served, in my opinion, in that kind of system.

Senator PROXMIRE. I just have one final question. I know you have long been concerned with affordability of housing. I'm sure you share our pride that more than 70 percent of Americans own their own home, which I think is one of the most important elements in our society in providing for a responsible society.

What do you think the Bank Board can do to further that goal?

Mr. HOVDE. Well, as I said in my comments, I'm very proud of our joint venture on housing affordability that I personally chaired and helped out together. I see no reason why the Bank Board through the Bank Board system could not likewise lock into our joint venture. Because what it is, is a coalition of public interest groups, private and public, to bring about and focus the attention on all of the impediments that we have put in place at the local level. I call it the no four no more syndrome: We have ours, you worry about yours, everyone sees the need for housing, but they all want it in someone else's backyard, but no one has told me where someone else's backyard is. Selfishness paraded under many different cloaks and guises.

Well, if there has been any good that has come out of this housing recession, and I think there has been some good that has come out of it, one of the real great things has been a public awakening and awareness that we have to get on with providing the housing alternatives and the housing product and putting incentives back in place at the community level rather than roadblocks. The greater that you can expand that coalition building of public interest groups, including

the financial institutions through the Bank Board system, would be very much in order, and I frankly intend to do precisely that.

Senator PROXMIRE. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator PROXMIRE. Thank you, Mr. Hovde. As I said before, I'm very proud of the job you've done down here. You're a credit to our State as well as to HUD, and I'm sure you will be to the Federal Home Loan Bank Board.

Mr. HOVDE. Thank you, Senator, for your very kind and thoughtful comments. I appreciate that.

The CHAIRMAN. In the committee's current oversight hearings some of the witnesses have advocated consolidation of the FSLIC and FDIC. Do you have any opinion on that?

Mr. HOVDE. I don't think it's appropriate at this time for those two agencies to be merged. We, certainly, don't have a homogenization of the banking industry and the thrift industry to date. And also, if you are parading it as an economy of scale that would be enacted through that, I think there are certain economies of scale as you get larger but beyond which then you start to build inefficiencies of economies of scale. Just the reverse takes place. If it is true that FDIC and FSLIC should be merged, the same thoughts, and at times proposals, for FHA and VA—they serve much the same purpose, have much the same programs, much the same mortgage insurability. Yet, I think it is in the best interests of the consumer that there be a separate FHA and VA agency, and I think it is in the best interests of the consumer that there be a separate FDIC and FSLIC.

If there comes a time somewhere down the road that there is, in fact, a homogenized financial industry out there, then it may have some merit. I would be very reluctant at this stage to move forward to that merger.

The CHAIRMAN. Let me just follow up a little bit on Senator Proxmire's question about risk-based insurance premiums. I came from the insurance industry. Any insurance I ever sold was based on risk. The premiums was always based on risk, whether it was homeowner's insurance, fire, automobile, life, whatever.

I realize it is maybe more difficult to determine risk. But we have a list of troubled institutions. You'll be looking at that list in the S&Ls. We have one in banks. Why do we have one insurance area that is entirely different than the entire rest of the field where you pay premiums on the basis of the risk involved?

Mr. HOVDE. We have one set fixed rate premium on FHA. Yet, we have many variables in the risk of FHA underwriting. I'm not closed to the issue of variable rate premiums but I very definitely want to study this entire matter. I haven't had time as yet. I will be open to the concept. It is going to be a very difficult thing, and the finest brains both within and without government will have to be brought to bear, to bring it into focus, to lay out the issues and the way it could be brought about, if indeed it can.

The CHAIRMAN. One of the biggest issues we have going right now is the so-called nonbank banks. Certainly, there is a lot of talk among management groups here in Washington that it's the acquisition and control of both banks and savings and loans by nondepository organizations, securities firms, insurance, and so on. It has been widely dis-

cussed here in our oversight hearings. We have requests for moratoriums. The Fed would like very much to have a moratorium. What is your opinion about acquisition of thrifts by nonbank banks?

Mr. HOVDE. I would be generally opposed to moratoriums. I have an inherent distrust for moratoriums which came about because of all the moratoriums that were imposed in the 1970's and the abuses that came about therefrom in the local communities as it relates to zoning and development. It is not to say that moratoriums cannot serve a useful purpose. If moratoriums are, in fact, enacted, they should be for a very limited period of time with a set date by which a body will act and respond.

I think the banking industry certainly has some problems of severity out there. However, this committee, through the Garn-St Germain Act, has set the new parameters by which the thrift industry can act, and I think imposing a moratorium back on yourselves after you just came through the most revolutionary change within the industry in a 50-year period of time would be somewhat of a statement saying that you did the wrong thing last October.

Certainly, the bank has to look at their own issue, but I don't think it necessarily has to apply to the thrift industry and the Federal Home Loan Bank Board. If this committee feels that a moratorium is in order, again I would suggest that it be for a limited period of time with a set date. But, hopefully, it would not apply to the thrift industry.

The CHAIRMAN. The trouble with set dates is Congress can always extend them. I think the answer is to move ahead with legislation on Glass-Steagle and McFadden and so on. But as you know, it's difficult to get the Congress to move on those issues. I don't know it's so much if we imposed a moratorium we'd be going back on Garn-St Germain. They are already finding ways around it. I don't like the idea of moratoriums in principle either. I would much prefer not to even consider one. But that depends a great deal on whether we are able to get some movement here in the committee in addressing some of these issues—the definition of a bank, what type of distinctions we are going to make between commercial and investment banking, whether or not we are going to address the issue of McFadden, whatever the outcome of that is. I'm sure you would agree that would be the better way to go, to face the issues up or down and make a decision on them rather than just a blanket moratorium to stop everybody from doing what they are doing.

Well, I have no additional questions.

I think you will be a fine member of the Bank Board. I am not aware of any opposition among the committee members to your nomination. So, we will expedite it as rapidly as we possibly can.

Do you have anything wish to add before we adjourn?

Mr. HOVDE. No; thank you again, Mr. Chairman, for this opportunity.

The CHAIRMAN. Thank you very much.

The committee is adjourned.

[Whereupon, at 3:45 p.m., the committee was adjourned.]

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